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CURRENCIES AND CREDIT MARKETS

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As a matter of fact, the intensity and length of a crisis depend largely on the resistance which the banking structure is or is not able to offer. An illiquid structure leads to a crash which a liquid one not only avoids for itself, but may actually soften for the rest of the community, by being able to 'come to the rescue'."

Liquidity, Melchior Palyi
Committee for Monetary Research and Education

HIGHLIGHTS

In trying to assess the future course of the U.S. currency it is essential to distinguish between two, sometimes highly-divergent, sets of forces: long-term secular developments and medium-term cyclical fluctuations around the secular trend.

In our view, it's all too obvious that the U.S. dollar is in a long-term downtrend. The decline, though, has taken place in waves that are clearly linked to the ups and downs of the U.S. business cycle.

Again we see shades of 1989 only with one little difference: The same economists who didn't see any recession approaching in 1989-90, now claim that the U.S. downturn is already over.

Irrespective of the odd statistical up-tick, our view about the U.S. economy's underlying weakness remains unchanged. Every single fundamental monetary, financial and economic indicator speaks against any possibility of a sustained, strong, recovery from recession.

Any such recovery depends on two all-important processes in the monetary and financial sphere: sufficient money creation by the banking system and business reliquefication. Neither are in evidence.

The great theme that has served to boost the dollar is scaremongering about Germany — excessive unification costs and associated fiscal and monetary policies are supposed to drag down the German economy — and extolling a certain U.S. rebound. We have come across many silly theories in our life. The unification hex beats them all.

The credit crunch in the U.S. has turned into a credit deadlock. Bank credit growth, including bank investments, has been virtually zero.

What, then, is driving the stock market? It definitely isn't excess liquidity in the monetary sense, as so many Wall Street gurus like to assert.

The chronic compression of profit margins in the U.S. suggests that any recovery might quickly run into rising inflation as businesses try to improve their profit margins.

NOBODY TO FINANCE THE U.S. RECOVERY

Viewing the television screens showing rolling Yugoslavian tanks and reading the bullish reports about the U.S. economy and the dollar, somehow it all appeared so familiar. Suddenly, it struck us. Heck, it's June-July 1989 all over again . . . bristling tanks and bustling dollar euphoria . . . guns and giddiness.

Almost exactly to the day two years ago — the end of June 1989 — we found ourselves in Norway. A shipowner there had invited us to discuss the currency situation. The U.S. dollar was soaring then against the D-mark just as today. He had bought a ship payable in dollars and didn't know whether to buy or to borrow the U.S. currency.

Late in the evening, watching the television newscast, we saw tanks rolling through the streets, just as today. However, it was nowhere near the German border, but far away in Tiananmen Square, Bejing. Nevertheless, the "infant lemmings" — an expression borrowed from Mr. Denis Healey, meaning the young men who dominate currency trading nowadays — revelled in their usual "safe haven" catch-phrase, pushing the dollar toward DM 2.00 just as today. Highly bullish forecasts targeting DM 2.40 and 180 Yen were rampant until September 1989, just before the dollar's descent started.

Apart from the ubiquitous "safe haven" standby, a number of other slogans contributed to the mid-1989 dollar surge: a soft landing and resilient U.S. economic growth, an improving U.S. trade balance, the expectation of a permanently tighter U.S. monetary policy relative to that of the Bundesbank and the Bank of Japan, falling U.S. inflation and last but not least — how could we forget — the PPP mantra (Purchasing Power Parity). A typical headline of September 1989 read as follows: *The Dollar Powering its Way to Purchasing Parity.*

As always, dollar bullishness was a reflection of the optimism on the U.S. economy; its improving fundamentals versus underlying bearishness about economic growth and inflation in Europe.

After the wild currency gyrations of June-September, during which the dollar briefly hit a peak of DM 2.04 despite heavy U.S. and Japanese interventions, it swiftly sagged toward DM 1.70 by year-end 1989. What followed was a grinding decline to DM 1.44 by early February this year.

What was it that so thoroughly deflated he dollar's heady steam of mid-1989? Simply, all the assumptions underlying the move proved to be glaringly wrong. In reality, the U.S. economy was weakening — not strengthening — and was weakening even in association with a drastic monetary easing by the Fed. Europe, on the other hand, was on the verge of a boom in tandem with a progressive monetary tightening. Instead of rising to the expected DM 2.40, these two sets of forces acted together to push the dollar to a new post-war low of DM 1.44. Again, the predominating rule of currency markets prevailed: namely, that the dollar falls when the U.S. economy weakens relative to Europe.

We thought it'd be instructive to recall that episode of 1989 simply because the arguments fuelling the new "bull run" of the dollar this year are almost a carbon copy. There is only one little

difference: The same economists who didn't see any recession approaching in 1989-90, now claim that the downturn is already over. Besides, they assert, the recession, though short and shallow, did have wonderful curative effects for the U.S. economy, particularly for inflation, as well as the trade deficit and the U.S. dollar.

A CYCLICAL DOWNTURN OR A SECULAR STALL?

In trying to assess the future course of the U.S. currency it is essential to distinguish between two, sometimes highly-divergent, sets of forces: long-term secular developments and medium-term cyclical fluctuations around the secular trend.

In our view, it's all too obvious that the U.S. dollar is in a long-term downtrend. The decline, though, has taken place in waves that are clearly linked with the U.S. business cycle. We have often explained that the dollar tends to be strong when the U.S. economy pulls out of recession ahead of Continental Europe, especially so when accompanied by a firm monetary policy. Conversely, the dollar has always weakened during U.S. business-cycle downswings.

Looking at the long-run fluctuations of the dollar, the dollar made new lows against the D-mark every successive cycle — both declining highs and lower lows. The low in the late 1970s was marked at DM 1.71. The next low, in late 1987, was DM 1.56, and the last low, in February 1991 as already mentioned, was even lower at DM 1.44.

The downward tendency of the dollar has probably been greatly understated considering that it always garnered massive central bank support during its critical phases. The extent of this support can be measured by the increase in dollar reserves held by foreign central banks with the Federal Reserve. Between the end of 1985 and early 1991 foreign-held reserves rose from $121 billion to $286 billion. Just how low would the dollar be without the benefit of the central banks' safety net?

MYTHS AND FACTS . . .

During the dollar's surge of 1989, it was widely argued that superior prospects for U.S. inflation and trade balances — particular, relative to Japan and Germany — would accelerate capital inflows to the U.S. and thus strengthen the dollar.

A substantial improvement in U.S. trade has occurred, but the inflation performance has turned out to be a great disappointment. Even while the U.S. economy has progressively weakened since 1988, the inflation rate has persistently risen.

. . . ABOUT INFLATION

More recently, both the U.S. trade and inflation pictures have improved more markedly while Germany, on the other hand, shows rising inflation — possibly reaching or exceeding 4% — coupled with a drastic deterioration in its trade balance.

English-speaking economists are making a lot of hullabaloo from these facts . . . far too much, in our

view. The salient point is that these economists misrepresent the time-limited effects of plain cyclical influences as new sustainable long-term trends.

Apparently, we are not alone in observing this deception as the following quote from Samuel Brittan in the Financial Times of London reveals: *"There is indeed more than a 50-50 chance that for a few months from this autumn, headline German inflation rates may exceed headline British rates. One cringes in advance at the way in which the more partisan British tabloids will celebrate. But this completely artificial crossover will reflect nothing more than the different cyclical positions of the two economies, plus the deficiencies of the British Retail Price Index, which produce wild gyrations around the underlying inflation rate."*

By all appearances, U.S. inflation is stuck around 5%. That's the highest level since 1982, showing a slow but steady uptrend ever since 1986.

In our view, despite the almost unanimous optimism over U.S. inflation prospects, there is at least one compelling reason for pessimism: that is the savage compression of corporate profit margins from a peak of 7% in 1985 to barely 3.5% recently. That profit squeeze, by the way, well predates the start of recession. Quoting Keynes: *"Cheapness which means the ruin of the producer is one of the greatest economic disasters which can possibly occur."*

The chronic compression of profit margins in the U.S. suggests that any recovery might quickly run into rising inflation as businesses try to improve their profit margins.

. . . AND TRADE BALANCES

In short, those flattering comparisons of falling U.S. inflation and rising German inflation are a joke. What's even more pathetic are the far-reaching conclusions that are drawn from the reversals in the trade balances in regard to international competitiveness. Here, too, it's blatantly evident that these trade-balance movements chiefly reflect a dramatic reversal in domestic demand growth between America and the rest of the world and particularly Germany.

The bottom line is that domestic demand growth in Europe and Japan has outstripped U.S. domestic demand growth ever since 1987. During 1988 to 1990, domestic demand for all industrial countries overall (excluding the U.S.) increased by 13% against only 5.5% for the United States. More recently, the greatest contrast is between Germany where domestic demand growth has accelerated to 5% and higher while U.S. domestic demand has been shrinking at an annual rate of 5%.

As a matter of fact, it is rather scary to think that both the United States and Britain still have substantial trade deficits in the depth of recession. Recession is not a lasting substitute for lacking competitiveness.

COMPETITIVENESS IN PERSPECTIVE

One glance at Table I on the next page puts the international competitiveness debate into sharp focus. It shows the cumulative move of prices, wage rates, productivity and unit labour costs for Britain,

Germany and the U.S. during the last five years. The pet theory obsessing Anglo-Saxon economists, Purchasing Power Parity, pales when one puts these sharply diverging performances into perspective.

Looking at these and many other figures, we are awe-struck at the sophistry and bamboozling skill with which British and American economists have been painting doom and gloom about the German economy and euphoria about their own economies.

COST AND PRICE TRENDS
Cumulative, 1985-1990

	Britain	U.S.A.	Germany
Hourly Wage Rates	49%	24%	31%
Consumer Prices	38%	25%	9%
Productivity	8%	4%	16%
Unit Labour Costs	45%	17%	10%

Is that too harsh of an assessment? Just for fun, can you recall the comments several years back when the United States and Britain had soaring trade deficits and Germany was sporting a soaring surplus? The media and analysts then extolled these deficits as virtuous emblems of economic dynamism while German surpluses were decried as the sorry symptom of "euro-sclerosis". The conclusion, of course, was the same as now: the dollar and the pound should therefore be strong and the D-mark should be weak.

SELECTIVE WALL STREET ECONOMICS

Many Wall Street and City of London economists operate with two different sets of economic theorems — one for their own economies and another one for non-English-speaking countries. As long as inflation accelerated in Britain and the United States, this was interpreted as being bullish for their two respective currencies on the assumption that it would necessitate higher interest rates. Now, as inflation rises in Germany, another set of economics applies, of course, supporting a bearish stance on the D-mark.

One of the worst aspects of the U.S. economic development, no doubt, is the collapse of net fixed capital investment in manufacturing. For good reasons, Wall Street has treated this severe problem just like any other - with silence. But to our boundless astonishment, we have now learned from an article by the chief economist of Morgan Stanley, Stephen Roach, that record-low investment is not only a non-problem but rather a blessing. He writes: "*The anaemic pace of capital formation in the 1980s means that, going into this recession, businesses did not make the classic mistake of bringing new plants on line precisely when the economy was about to hit the skids... For you "double-dippers"* [forecasters of a second economic down-leg], *capital spending does not seem to be a leading suspect that might prompt another leg down in the current recession.*" Simply paraphrased, because industry investment is already at low levels, investment cannot fall further.

Unfortunately, anaemic manufacturing investment transcends this recent cycle and has already lasted

for more than a decade. In any case, focusing narrowly on manufacturing non-investment completely ignores the huge malinvestments in real estate and the associated wholesale destruction of S & L's, banks and insurance companies. Not a single word about such little calamities are found in Mr. Roach's article. We call this "selective Wall Street economics".

GERMANY: UNIFICATION A SCAPEGOAT

Ever since German unification became a reality, international pundits — British economists and journalists have been the worst — have persisted in painting a picture of impending economic and financial disaster for the German economy and its currency.

A quote from a recent article in the Financial Times captures the mood: *"It is easier to think of reasons why east Germany will become Germany's mezzogiorno, with the current level of transfers, or its Ireland without them, rather than why it will succeed. The persistent optimism seems to be partly explained by an unwillingness to contemplate failure."*

If the author had ever looked at a map, he might have discovered an important difference between Leipzig and Messina: namely, rather different distances from Europe's centre. Why should businesses invest in east Germany? Because it is centrally located and because it has a reservoir of skilled people.

Admittedly, the German economy is split into two parts with singularly contrasting conditions. The old West is booming with growth rates last seen in the early 1970s; the old East is collapsing.

However, the parts are not equal in size. As measured by real GNP, the booming West comprises an overwhelming 90% of the total. But most international analysts and gossip sheets only have eyes for the 10%-slice of Germany that's on the operating table.

Nevertheless, the great theme that has served to spread doom and gloom about Germany is that excessive unification costs and associated fiscal and monetary policies will drag down the German economy while the U.S. rebounds. We have come across many theories in our life. This one beats them all.

Precisely the opposite is true, both over the short run and the long run. Unification's first obvious effect is a powerful demand boost from the East to the West, financed by huge transfer payments from West to East. While most of the East's demand is being immediately recycled to West Germany, there is a large and growing spill-over effect on the whole of West Europe as measured by the rapid disappearance of Germany's former current-account surplus of DM 107 billion in 1989. That shift mainly reflects soaring German imports from the rest of Europe and has turned Germany into Europe's growth locomotive.

A MOST SUCCESSFUL OPERATION

One thing is clear: Unification means that West Germany will have to plough an enormous amount of resources into what was East Germany. In order to achieve this adjustment without launching

inflation against the background of an already booming West Germany, such resources must be withdrawn or "crowded out" from somewhere else.

Right from the beginning, it has been eminently clear that the natural and prime target for such a "crowding out" in favour of unification would have to be Germany's huge export surplus. Neither domestic consumption nor domestic investment need to be bridled. Rather, the resources tied up in producing the export surplus had to be redirected towards the domestic market.

What was it that implemented this rapid, whopping resource transfer? It was a combination of three things: tight money, a soaring budget deficit and a highly responsive German investor who massively switched his new investments from foreign to German bonds. Considering the speed and the scale of the operation, we can only say that is has proved to be a smashing success.

A SILVER LINING FOR EAST GERMANY

Fuelled by an investment boom in the West and by consumer demand in the East, the West German economy has continued to boom with an inflation rate well below that of other countries mired in deep recession. Compared with the last quarter of 1990, real GNP in the first quarter of 1991 rose at an annual rate of 10%.

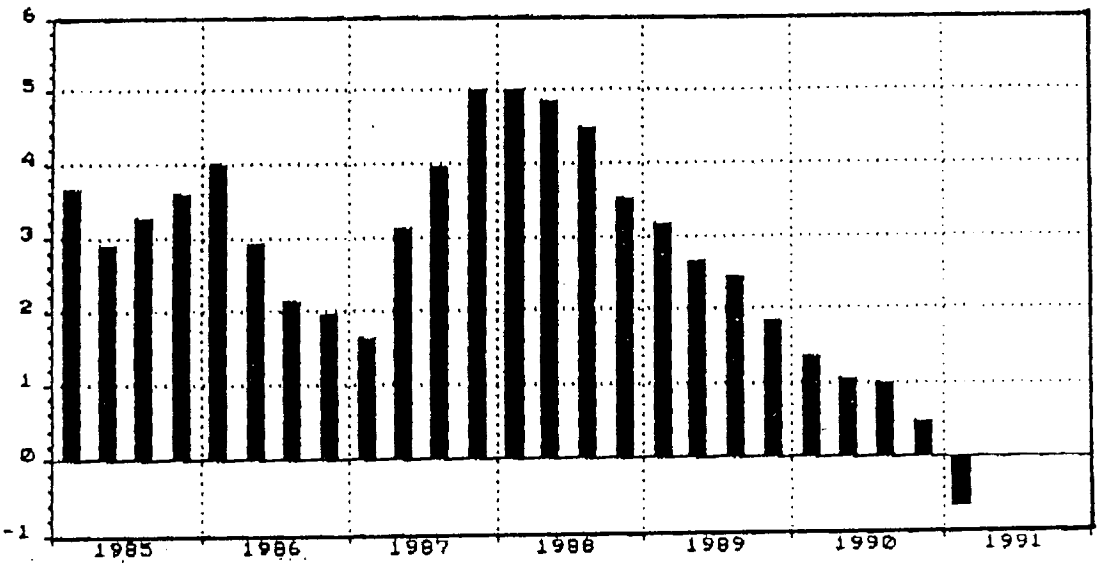
But what about the economic collapse and depression in East Germany? For the time being, no doubt, soaring unemployment and uncertainty cause human duress though real incomes have been boosted. But the economic and financial problems are manageable when seen against the nation's huge pool of capital reserves, thanks to high savings and investments. Even the pessimists agree that in the longer run, unification will unleash new economic energies for Germany as a whole. When will the long run start? That's the key question.

From what we hear and read from competent people, we would say that an upturn in East Germany should be under way by early next year at the latest. Then, we think, good news items will increase relative to the incidence of negative articles. Some research institutes expect that industrial production will bottom this autumn and then rise by 10% annually between 1992 and 1995. That compares with a decline of 13% in 1990 and an expected 20% in 1991.

So far, services are the main pillars of growth, especially so financial services, retail trade and communication. Already, available telephone lines have been quadrupled. Later this year, as institutional obstacles are overcome, many and varied incentive and promotion programs should trigger off a considerable upswing in corporate and public investment. A double-digit growth rate is considered a realistic possibility as of 1992.

Inflationary pressures, in the meantime, are building up in West Germany from two sides: first, from a general 7% wage rise; and second, due to recent increases in indirect taxes. As a result, it seems reasonable to expect a temporary inflation-peak of 4% to 4.5%, a rate which is intolerable for Germany. If inflation were to rise that high, further measures of monetary tightening by the Bundesbank would be a virtual certainty, whatever the economic situation. At the very least, there's no hope of any relaxation in any monetary policy.

UNITED STATES: GNP GROWTH
(Year-over-year, percent change)



Source: Datastream

RELATIVITY: U.S.A. VERSUS GERMANY

Week after week, we have been reading a load of reports, all of which ring the same refrain: The dollar must rise because the U.S. economy is recovering while the D-mark must fall because the German economy will relapse throughout the course of the year. Well, gauging by the two facing charts, we have some semantic problem trying to distinguish between economic weakness and economic strength. We can't help but wonder about relativity.

It seems to us that most economists put too much emphasis on incremental growth percentages, completely disregarding economic levels. If German GNP growth were to slow to 3% in 1991 from 4.6% in 1990, or even to 0% growth later in the year for that matter, it would still be at boom levels. By contrast, if U.S. domestic demand increases 2% after falling almost 5% at an annual rate over the last two quarters, it would still be at recessionary levels, although not as low as before. Obviously, these different absolute levels of economic activity must also have differing implications for interest rates.

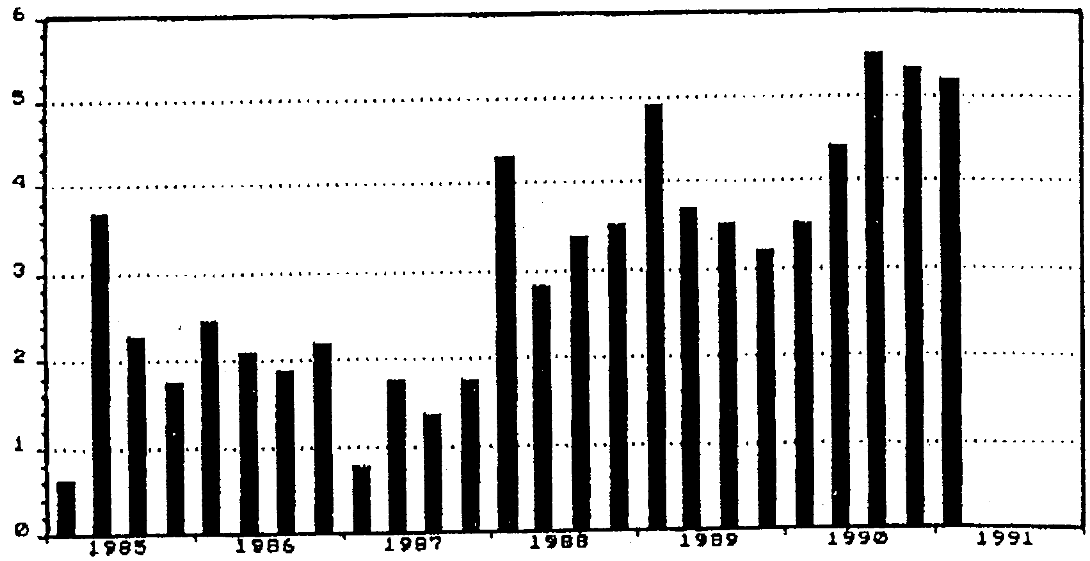
THE BIG QUESTION: A U.S. RECOVERY?

The central question for the world economy and world financial and currency markets is whether there will be solid and sustained recovery in the U.S. economy. Irrespective of the odd statistical up-ticks, our view remains unchanged. Immutably, unquestionably, every single *fundamental* monetary, financial and economic indicator speaks against any possibility of such a recovery.

The potential for a sustained, strong recovery from recession depends on two all-important processes

GERMANY: GNP GROWTH

(Year-over-year, percent change)



Source: Datastream

in the monetary and financial sphere: sufficient money creation by the banking system and business reliquefication. Neither is in evidence.

FROM CREDIT CRUNCH TO A CREDIT DEADLOCK

As elucidated in the last letter, overall liquidity and money supply growth is determined by the expansion of bank lending and bank investments. No other financial intermediary shares this ability of the banks to create liquidity. That's why the banks hold the key to money supply growth.

Many economists, though, have the bright notion that the U.S. banking system has become redundant, arguing that its role has been superseded by other financial intermediaries. The fact is that an expansion of financial assets — say for insurance companies or pensions funds — doesn't add a mite to the money supply. These intermediaries can only shift money. They cannot create money.

Lately, talk about a credit crunch has waned. However, the banking figures actually show that it's getting worse and worse, not better. The credit crunch has turned into a credit deadlock. Bank credit growth, including bank investments, has been zero. At the end of May, total loans and security investments of all commercial banks stood at $2,750 billion as against $2,750.9 at March-end. And, since the end of 1990, these assets have only risen at an annual rate of 2.3%. Such a credit blockage is absolutely unprecedented. Table II below draws out the relevant comparisons.

Measured by the decline in the Fed funds rate, it may seem that an aggressive monetary easing has occurred. But, measured in terms of the lending and investing activity of the commercial banks, money and credit are tighter than ever before . . . even tighter than under the helm of Paul Volcker's

U.S. DOMESTIC FINANCIAL STATISTICS: LOANS AND SECURITIES
(Billions of dollars, all figures annualized)

	1980	1981	1982	1983	1984	1985
Total Loans and Securities	1239.6	1316.3	1412.0	1568.1	1716.8	1895.5
(Percent Change)	9.13%	6.19%	7.27%	11.06%	9.48%	10.41%
U.S. Government Securities	110.0	111.0	130.9	188.0	260.3	270.7
(Percent Change)	16.40	0.91	17.93	43.62	38.46	4.00
Total Loans and Leases	915.1	973.9	1042.0	1132.6	1316.5	1450.3
(Percent Change)	7.67	6.43	6.99	8.69	16.24	10.16
Commercial and Industrial	326.8	358.0	392.3	413.7	469.0	488.6
(Percent Change)	12.23	9.55	9.58	5.46	13.37	4.18
Real Estate Loans	252.6	285.7	303.1	335.5	376.2	423.2
(Percent Change)	8.47	8.80	6.09	10.69	12.13	12.49

	1986	1987	1988	1989	1990	1991*
Total Loans and Securities	2089.8	2233.0	2417.2	2577.4	2723.6	2750.0
(Percent Change)	10.25%	6.85%	8.25%	6.63%	5.67%	2.33%
U.S. Government Securities	309.8	335.0	361.4	396.9	454.2	484.9
(Percent Change)	14.48	8.10	7.88	9.82	14.44	16.22
Total Loans and Leases	1583.0	1703.6	1861.9	1999.2	2093.8	2091.1
(Percent Change)	9.15	7.51	9.30	7.37	4.73	-0.30
Commercial and Industrial	541.4	562.4	601.9	634.2	648.1	633.2
(Percent Change)	10.81	3.88	7.02	5.37	2.19	-5.52
Real Estate Loans	489.0	588.4	672.0	754.8	836.5	854.7
(Percent Change)	15.55	20.33	14.21	12.32	10.82	5.22

* To May 1991 percentage changes annualized.
Source: U.S. Federal Reserve Bulletin

ferocious squeeze of 1980-82. What, then, is driving the stock market? It definitely isn't excess liquidity in the monetary sense, as so many Wall Street gurus like to assert.

CORPORATIONS ARE ANOTHER IMPORTANT KEY

The potential for recovery, as already cited, also depends critically on the health of the corporate sector. If banks are the engine of money and credit creation then corporations are the chief engine of employment, income and GNP growth. A key cause of this recession has been a prolonged period of severe job-cutting by corporations which has given rise to a curtailment in consumer incomes and spending. In this respect, the corporate sector holds a key role in laying the groundwork for consumer spending and an economic recovery.

No, we have to say that U.S. corporations are not at all ready for a recovery, least of all the manufacturing sector which is exposed to the combination of a liquidity and profit squeeze. Most of the corporate profit gains since 1981-1982 have occurred abroad. Since 1988, domestic profits have plummeted from $106.5 billion to a level of barely $70 billion.

Measured in terms of the sky-high stock market prices, corporate health seems to be at its most hale ever never mind that mundane things like corporate liquidity and profit margins have hardly ever been

more miserable.

Wall Street gurus and Federal Reserve Board staff like to argue that corporations don't need the banks any more and that they are getting their liquidity instead through a torrent of stock and bond issues. There's nothing new in the latter channel. It's the normal pattern that U.S. recoveries are preceded and associated with a drastic shift in corporate financing from the banking system to the securities markets..

To be sure, new security issues since the beginning of this year — both bonds and stocks — ran at a high tide. However, according the Fed's Flow of Funds Accounts for the first quarter of 1991, we notice that there is a lot of air in those figures. In the aggregate, corporations raised new funds by a net amount of $3.8 billion during the first quarter. Since this figure includes all external sources of funds, including equity and bond issues, the net impact on aggregate corporate liquidity is almost immaterial.

As a matter of fact, U.S. corporate liquidity has shown a deteriorating trend ever since 1988 as falling external financing coincided with declining internal financing. In 1988, total net new internal and external financing amounted to $548 billion. By the fourth quarter of 1990, this figure declined to $421 billion at an annual rate. The first quarter of this year didn't see any improvement.

A significant cause of this shrinkage in corporate liquidity has been the fact that U.S. corporations have boosted dividend payments in spite of declining profits. In 1989, dividend payments of $80.5 billion compared to a to $68.8 billion in undistributed profits. In the first quarter of this year, dividend payments ballooned to a level of $115 billion while undistributed profits from domestic sources vaporized to zero.

CONCLUSIONS

Recent data suggests that the slump in the U.S. economy has slowed markedly. Of course, it is easy to understand that an economic downturn doesn't occur in a straight line. What guides us more than the feverish short-term number mania are the fundamental, cyclical and structural influences that caused the recession in the first place. Factors such as record-low profit margins, the credit crunch, falling employment and falling consumer incomes are not only not improving, they're worsening.

Every sustained economic recovery needs lots of monetary and financial fuel. That's not forthcoming this time. Most American banks have neither the profit nor the capital to expand. It's a pivotal point. The real estate crisis that destroyed the S&L's has caught up with the commercial banks. The statistics displayed in the table on page 10 are undeniably stark. Between 1980 and 1991, U.S. banks have increased their real estate loans from $262 billion to $854 billion. That compares to an increase in commercial and industrial loans from $326.8 billion to $626.5 billion.

To the smouldering bank crisis, add the even bigger crisis dogging the S&L's. Here, a rapid expansion turned into a rapid contraction almost overnight. The figures speak for themselves. In 1988, the S&L's accounted for $1,300 billion in total assets. In 1987 and 1988, S&L loans expanded $93 billion and $86 billion, respectively. Conversely, loans contracted by $94 billion in 1989, $138

billion in 1990, and at an annual rate of $166 billion in the first quarter of 1991.

Meanwhile, more and more problems are bubbling up in insurances companies and pensions funds. With all these crumbling financial edifices, we ask ourselves, who will finance the U.S. recovery? The answer is nobody.

The structural problems afflicting the U.S. economy alone are sufficient to support our negative long-term outlook on the U.S. economy. Previous letters have analyzed these structural factors in detail, including underinvestment, low savings, overconsumption, high unproductive debt, to name a few.

The spreading financial problems, in isolation, have serious negative implications and are sufficient to block the U.S. economy all on their own. Adding the structural and financial problems into the same brew makes the situation all the more intractable. Try as we might, we see no potential for a sustainable U.S. recovery.

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